

May 4, 1987

MEMORANDUM TO THE BOARD OF DIRECTORS

Country Limitation Schedule Recommendation: Iraq

BACKGROUND AND

COUNTRY SUMMARY: Eximbank has been "Off Cover" for all transactions since March 1986 when it ended FCIA insurance coverage under letters of credit from Bank Rafidain and the Central Bank of Iraq because Bank Rafidain became delinquent. At the highest point these arrears amounted to just over \$5 million. Some claims were paid. Commencing in late 1986, the Iraqi Government made payments on the delinquencies and brought the payments current by February 18, 1987. Rafidain's letters of credit became over due again on March 17, 1987, but subsequent payments of \$1.9 million brought the account current on April 13, 1987. A payment due April 21, 1987 was made on time; the next payment is due May 14, 1987.

The Board conducted an interagency review of Iraq on April 24, 1987. The discussion indicated that, for the first time, it now appears possible for Iran to win the 7-year old war. Over the short-term, the current situation, chiefly a stalemate with Iran making periodic probes and occasional advances, is likely to continue. But over the medium-term, a slow wearing-down of Iraq's defenses and morale could result in an Iranian victory. No predictions were given concerning the future of the existing Government in Iraq or what could be expected in the post-war period.

Economic conditions in the country have steadily worsened since the start of the war. Foreign exchange reserves are essentially exhausted. Payments on external debt have been rescheduled bilaterally each year since 1983. Berne Union members report payment delays have increased from \$70 million as of December 31, 1985 to \$730 million as of December 31, 1986; unrecovered claims increased from \$238 million as of September 30, 1986 to \$314 million as of December 31, 1986. Eight of the major Berne Union members are Off Cover for medium-term transactions and six are also Off Cover for short-term as well. All members have tight restrictions or reduced cover if they are open.

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Our balance-of-payments projections, even under the optimistic assumption that Iraq would export more than 3 million barrels of oil per day after 1989, indicate that Iraq will be unable to service scheduled debt repayments over the next 5 years and will require continuing reschedulings. This forecast and a detailed economic analysis are attached.

EXIMBANK

EXPOSURE:

Eximbank current exposure in Iraq, all short-term, is \$4.3 million with maturities falling due under letters of credit through December 12, 1987.

RECOMMENDATION:

Eximbank should remain Off Cover for all programs concerning Iraq.

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